



June 17, 2014

Mr. Barry F. Mardock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Mr. Mardock:

Subject: Proposed Rule on Standards-of-Conduct Requirements (RIN 3052-AC44)

On behalf of the Board of Directors of Farm Credit East, I am writing in regard to the Farm Credit Administration's proposed rule on Standards of Conduct and Referral of Known or Suspected Criminal Violations (RIN 3052-AC44). I am an elected director and serve as Chairman of the Board of Directors of Farm Credit East.

My brother and I own and operate Adon Farms, a 1,200-cow dairy that also grows forage crops and corn for grain. As Chairman of the Farm Credit East Board, I am commenting on certain provisions of the proposed regulation; however, we also support the more comprehensive letter to be submitted by the Farm Credit Council. As written, these proposed regulations will create confusion and unnecessary burdens on directors and the Association.

We support reasonable standards-of-conduct regulations that are easily understood and do not interfere with normal business transactions. The directors of Farm Credit East regard their responsibilities very seriously and believe that the current annual certification process as required under the existing rule on Standards of Conduct serves to emphasize that ethical conduct is an on-going priority for all System institutions.

The Board of Directors of Farm Credit East do not review or discuss individual loan applications, renewals or modifications. Further, as Directors, we are not involved in any manner with negotiating or discussing the terms for individual loans. The only individual loans in which we hear a report from management are "official" loans involving other Farm Credit East Directors or employees. The reality is that Directors are not making and should not make decisions on individual loans that are made by Farm Credit East.

The elected directors of the Farm Credit System depend on their livelihood as farmers, producers and owners and operators of forest product businesses. Our businesses need the ability to transact business with other farmers and forest products businesses without the need to obtain prior written approval from the Standards of Conduct Officer, as would be required under the new proposed rule. This should be the case even if the price of the good or service is subject to negotiations. As long as the transaction is in the normal course of business, there should be no further requirement. Any further restrictions on a director's ability to run his or her business would create a significant disincentive for serving as a director.

These regulations seem to miss the underlying principle that Farm Credit institutions are farmer-owned cooperatives. I am sure that Farm Credit East customers know about my business operations when they elected and reelected me. They elected and re-elected me because they believe I have the knowledge and skills necessary to be a strong director. Moreover, they believe that I have the integrity to not relate or confuse in any manner my personal business from my role as a Farm Credit director.

Of utmost concern is the proposed regulation's requirement that the director obtain the prior, written approval of the association's Standards of Conduct Officer before entering into any transaction with an association borrower (as set forth in Section 612.2145 (b)). The association's Standards of Conduct Officer will have to "demonstrate," for each such transaction, that the transaction is in the ordinary course of my business or is not material in amount and also document that I did not participate in the determination of any matter that affected the financial interest of that borrower except those matters affecting all borrowers in a nondiscriminatory way. This requirement for written, pre-approval of transactions with association borrowers will be nearly impossible for directors to comply with and will essentially prevent many directors from being able to conduct business with their existing customers. In my annual disclosure statement, I should be required to report the types of transactions I do that may involve Farm Credit East customers and that should be adequate.

In addition I have other concerns:

- Family: Section 612.2130 (3) provides a definition for "family" that after mentioning specific family members includes "...anyone whose association or relationship with the director or employee is the equivalent of the foregoing." The use of the word equivalent and the entire phrase is confusing, very broad, and should be deleted.
- Guidance: Section 612.2135 (b) requires directors and employees of System institutions to follow "guidance" of the Farm Credit Administration. Given that these detailed provisions are regulations, additional regulatory directives in the term of "...policy statements, instructions, procedures and guidance" as proposed in the regulations should be eliminated.
- Appearances of conflicts: Section 612.2136 (2) requires disclosures of "appearances" of conflicts of interests. This is very vague, far reaching and unreasonable to achieve and should be deleted.
- Official Section 612.2236 refers to "official action." It is unclear as to what official action means. Is this a reference to "official loans" or is this any business conducted by the Association including crop insurance policies or each loan of a director?
- Section 612.2136 requires disclosure to the "official" or the Board of all "material" non-privileged information. Again, this is a very vague and broad disclosure requirement because there is no definition of what is considered "material" nor is there a definition provided for the term "privileged." Such vagueness will lead to second-guessing after the fact by the FCA, and will not result in meaningful disclosures. It is also not clear if this requirement applies in a situation where a director has already recused him or herself.
- Prohibited Conduct – Section 612.2145 prohibits directors from participating in deliberations and determinations that directly or indirectly affect the financial interest of the director, the director's relatives, and others. An exception for matters of general applicability affecting all shareholders/borrowers in a nondiscriminatory way has been eliminated. In its place, a new subparagraph 8 (b)(1) has been added to this section which permits director participation in a matter otherwise prohibited under this section but only so long as the matter is one of "general applicability affecting all shareholders/borrowers in a nondiscriminatory way, as determined by the Standards of Conduct Official." This prohibition on a director's ability to act upon matters which may come before the Board is unduly burdensome and unworkable. It will require the Standards of Conduct Official to make a determination, on a case-by-case basis, of each item to be considered by the Board. It will also require a director to recuse himself from any discussion or deliberations which affect his or her particular industry (i.e. dairy farming) because those

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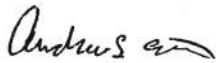
discussions will not affect all shareholders equally in a nondiscriminatory way. For example, a discussion on the impact of dairy exports on dairy prices received by farmers could require a director that is a dairy farmer to recuse himself because this subject area does not have the same potential impact on all directors.

- Standards of Conduct Official - We are also very concerned that these proposed regulations shift responsibility from individual directors to report their activity and comply with standard of conduct requirements to the association and the Standards of Conduct Official, who must now enforce and ensure compliance. Neither the association nor the Standards of Conduct Official should be responsible for the actions of directors.

In closing, I appreciate the opportunity to provide comments on these proposed regulations. I urge FCA to reconsider the approach taken in these regulations and avoid prescriptive, confusing provisions that will make it difficult for directors to serve on Farm Credit boards of directors.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew J. Gilbert", with a stylized flourish at the end.

Andrew J. Gilbert
Chairman of the Board of Directors

AJG:ncc